Statement on
"Predictability And Control:
Twin Reasons For Restoring
Budget Disciplines"
before the
House Committee on Budget
for the
United States Chamber of Commerce
&
Americans for Transportation Mobility
by
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Mr. Chairman, Ranking Member Spratt, members of the Committee, thank you for allowing me to appear before the Committee to discuss the importance of fiscal responsibility and maintaining guaranteed funding protections for federal highway and mass transit programs. I am Thomas J. Donohue, President & CEO at the United States Chamber of Commerce, which is the world's largest business federation. I also appear before you as the Chairman of the broad-based Americans for Transportation Mobility (ATM) coalition. My testimony will address the importance of reauthorizing the Budget Enforcement Act of 1990 (BEA) [P.L. 101-508], with particular emphasis on the guaranteed spending categories added to the BEA with enactment of the Transportation Equity Act for the 21st Century (TEA-21) [P.L. 105-178] in 1998 that provides predictability and control to investment from a dedicated Highway Trust Fund.

Americans for Transportation Mobility

Last summer the U.S. Chamber helped launch a new coalition called Americans for Transportation Mobility, or ATM. ATM is a broad-based organization of transportation users and providers, state and local organizations, and state and local government officials. The coalition has more than 300 organizations presently, and we hope to increase that figure significantly in the coming months.

The coalition's objective is simple: to build public and political support for a safer and more efficient transportation system. We hope to achieve our objective through a two-pronged attack: 1) fighting to ensure that Congress fully dedicates federal transportation trust fund revenues for their intended purpose, and 2) accelerate the project review process by removing redundancies. All the money in the world will not help if we are not efficient in the planning and approval for much-needed improvement projects.

The coalition is bringing together for the first time the business and labor communities—in educating lawmakers on the importance of improved mobility and safety to future economic growth. Six major labor organizations are members of the coalition as well, with Laborers International Union of North America General President Terry O'Sullivan serving as a Vice Chairman. They serve on the front lines in the building and maintaining of the nation's transportation infrastructure and are welcome partners in ensuring a national transportation system that provides the mobility our country demands.

Budget Enforcement Act and Transportation Funding

The BEA expires at the end of fiscal year 2002 (September 30, 2002). The BEA has provided the basic enforcement framework for budgetary matters. This framework has provided fixed domestic caps in federal government spending along with procedures for controlling deficits. The BEA established statutory limits on discretionary spending and a pay-as-you-go (PAYGO) requirement [only spending revenues collected] for new mandatory spending and revenue laws.

In Title VIII of TEA-21, new discretionary spending categories were formed to create firewalls for highway and transit spending. These firewalls guarantee that all revenues paid into the Highway Trust Fund (HTF) must be spent for their intended purpose of highway and transit investment. Previously, the highway and transit discretionary programs competed for annual budgetary resources with most other domestic programs. The firewalls created a "floor" for highway and transit spending over the fiscal year (FY) 1998-FY 2003 period of $162 billion for highways and $36 billion for transit programs.

The U.S. Chamber and many members of the ATM coalition strongly supported the effort to bring "truth in budgeting" to the Highway Trust Fund. Before the enactment of TEA-21, the HTF had a balance of $28 billion. This surplus was used to mask the overall budget picture. With enactment of the TEA-21 budget firewalls, the federal government could no longer run up surpluses in the HTF and for the first time ensured that all dedicated taxpayer revenue paid into the HTF is used for much needed highway and transit maintenance and improvement.

The domestic discretionary caps were raised by TEA-21 to accommodate the increased transportation spending. Although the overall discretionary spending caps expired last fall, the Highway and Transit outlay caps established under TEA-21 continue through 2003.

The creation of the highway and transit categories, combined with BEA provisions that prevent Congress from moving funds from one budget category to another, has been the main mechanism for assuring under TEA-21 that all user fee revenues into the Highway Trust Fund are used solely to finance federal investments in highways and mass transit. Without the separate budget categories, there would have been no limitation on the incentive for the federal government to cut highway and mass transit funding below the TEA-21 guarantee and use the savings for other programs. This means there is no incentive for the TEA-21 highway and mass transit investment levels to be underfunded, because those funds by law cannot be used for any other purpose. Reauthorization of the BEA must retain the separate highway and transit budget categories to ensure the continued guaranteed investment in our nation's transportation system.

Revenue Aligned Budget Authority

The enactment of TEA-21 also created a funding mechanism [Revenue Aligned Budget Authority (RABA)] to ensure that federal highway spending was linked to revenues paid into the HTF. This mechanism, beginning in FY 2000, has used projections of Highway Account receipts into the HTF to adjust highway spending to the amount estimated to be collected. The Transit Account of the HTF is not included in the RABA calculations.

The RABA mechanism was created to ensure that all revenues paid into the HTF were utilized as they were being collected for needed transportation investment. Since FY 2000, this mechanism has generated an additional $9 billion in highway spending over the guaranteed minimum amount in TEA-21. These additional funds have allowed states like Iowa and South Carolina to move forward with much needed surface transportation projects.

With vehicle miles traveled (VMT) continuing to rise every year, it came as quite a jolt to the business and transportation community that the RABA formula called for an $8.6 billion reduction in the federal highway program for FY 2003. When the formula was created, it was not believed that revenues into the HTF would ever experience such a drastic reduction. According to the Treasury Department, the $8.6 billion reduction figure came from two calculations of the formula. First, according to the "lookback" component of the calculation, it was estimated that revenues from FY 2001 were actually $4.369 less than the amount estimated to be collected. The second component, the "lookforward" provision, was also reduced by over $4.2 billion.

While the intent of Congress when enacting the RABA formula was to ensure full funding of the highway program, the effect of the formula in FY 2003 to reduce program spending was not an intended consequence and must be adjusted when TEA-21 is reauthorized next year and incorporated into the BEA reauthorization.

Other Technical Issues

When Congress reauthorizes the BEA and TEA-21, two technical issues should be addressed.

Balanced Budget Act Adjustment

The Balanced Budget Act should adjust the highway category in section 251 (b) to reflect the FY 2003 budget resolution by not less than $4.369 billion. The reason this needs to be done is that even though the budget resolution provides room to add back $4.4 billion for highways, the highway guarantee is still only $23.2 billion absent a change in the Balanced Budget Act. While the Appropriations Committee has received an additional $4.4 billion via the budget resolution, there is no requirement that it be used for the highway program or distributed according to the highway program formulas. Revising the highway category to reflect the budget resolution clarifies the intent of the House to distribute the additional funding to each state via the federal funding formula.

Impact of Highway Program Funding Transfers

Occasionally, the President or Congress will propose to move some core highway program funds to another program within the highway budget category, such as the National Highway Traffic Safety Administration (NHTSA) or the Federal Motor Carrier Safety Administration. Programs in these areas have a faster spendout rate than the core highway program, meaning higher outlays during the budget year. Section 251(b) of the Budget Act, however, puts a strict limit on total highway budget category outlays for each fiscal year. To prevent the fund transfer from increasing outlays, section 251(b) requires that the highway obligation limitation be reduced to offset the increase. This offset can be significantly larger than the proposed fund transfer, thus cutting highway investment even more.

The following example should explain the problem.

Let's say Congress wants to take $100 million from the core highway program, which spends out over seven years, and give it to NHTSA for a safety education program that spends out immediately. According to the highway program spend-out formula, $100 million for highways in a fiscal year results in $27 million of outlays during that fiscal year. But $100 million for NHTSA results in $100 million of outlays, an increase of $73 million. Section 251(b) requires that highway funding be reduced enough to offset the additional $73 million of outlays. Since it takes a $100 million cut in highway funding to reduce outlays $27 million, a $73 million cut in outlays would require a $270 million cut in highway funding. The net cost to the highway program of a $100 million transfer to NHTSA would thus be $370 million—the initial $100 million transfer plus the $270 million needed to offset the increased outlays. The $100 million gets spent by NHTSA and presumably accomplishes something, but the $270 million simply vanishes and is thus a cost to the highway program with no benefit to anyone.

While this is just an example, it is important to note that budgets submitted by the Clinton administration as well as the FY 2003 budget submitted by the Bush administration included fund transfer proposals that involved precisely this kind of problem.

If Congress wants to use core highway funds for something else, it should not result in an unnecessary multiple cut in highway investment. The relevant provisions of section 251(b) need to be revised so that any loss is at most dollar-for-dollar.

Highway Funding Restoration Act

Faced with a possible $8.6 billion shortfall in FY 2003 highway funding, the bipartisan, bicameral leadership of the House Transportation & Infrastructure Committee and the Senate Environment & Public Works Committee introduced the Highway Funding Restoration Act (H.R. 3694/S. 1917). The legislation would at a minimum restore $4.4 billion of the $8.6 billion reduction for FY 2003. This restoration would bring federal highway funding to the minimum level authorized in TEA-21 ($27.7 billion). With a balance in the HTF of over $20 billion, there has been overwhelming support in Congress to address the FY 2003 funding shortfall with 315 House members and 71 Senate members cosponsoring the legislation.

What would happen if the $8.6 billion reduction took place? Studies that link spending to jobs suggest the loss of up to 350,000 jobs for starters. These jobs are held by hard working men and woman who could ill afford to lose their job as our country is recovering from an economic slowdown. How about the impact on state highway projects? Several states have already frozen new projects until the federal funding situation is clarified. In Iowa, an $8.6 billion reduction would delay approximately $50-$60 million in state highway and bridge projects in FY 2003. South Carolina would be forced to delay $25 million in pavement and reconstruction contracts, $22 million in Interstate highway upgrades and $15 million in safety upgrades. A significant reduction in federal funding would put a great strain on state resources during a time when state tax revenues are declining.

Special thanks goes to you, Mr. Chairman, for understanding the negative consequences of inaction and including the intent of H.R. 3694 in the House Budget Resolution. While the Senate Budget Committee approved a higher highway number ($5.7 billion restored), we look forward to working with both the House and Senate leadership to restore highway funding to the maximum sustainable amount. On March 20, the Congressional Budget Office (CBO) announced that the HTF could sustain spending for the highway program at a $30.1 billion level. We will continue to work with this Committee, the Transportation & Infrastructure Committee, the Appropriations Committee and your counterparts in the Senate during the budget process to ensure the intent of TEA-21 to invest all HTF revenues collected for its intended purpose of surface transportation investment.

The Importance of Transportation Infrastructure Investment

While this Committee spends much of its time reviewing the mechanics of the federal budget process, I would like to take a minute to explain the importance of investment in our nation's transportation system.

Our nation's transportation system is the lifeblood of our nation's economy. It provides the mobility to move people and freight better than any country in the world. Unfortunately, our transportation infrastructure system is ill-prepared to handle higher and higher volumes of freight and people. Only two major hub airports have been built in the United States in the past twenty-five years, and new runway projects like the one in San Francisco can take as long as 15 years to build. Unless something happens soon, our aviation system will be virtually grounded by an expected tripling of air cargo volume by 2015, and a 50 percent increase in passenger traffic during that same period.

On our nation's highway system, a similar crisis is facing it. In just a twenty-five year span—1970 to 1995—highway passenger travel in the U.S. nearly doubled. But improvements to and expansion of our highway system are not keeping up. Since 1970, vehicle miles traveled have soared 123 percent while road capacity has increased just 5 percent.

The U.S. Marine Transportation System, which is 25,000 miles of navigable channels, 300 ports and nearly 4,000 marine terminals, annually moves more than a billion tons of domestic and international freight. At the current rate, every major U.S. container port will experience a doubling or tripling of container volume by 2020, but as of right now, many aren't even equipped to handle the new mega containerships.

There are many consequences of a subpar system— congestion, decreased productivity, more accidents and diminished global competitiveness. The cost of road congestion to the U.S. economy was nearly $78 billion in 1999—more than triple what it was 20 years ago! Billions and billions more are lost to companies when their products don't reach their destinations on time.

Our ports simply don't compete on an international level. When you compare our seaports with some of those in Asia, you'll have difficulty figuring out which ones belong to the most advanced nation in the world, and which belong to a developing country. Failure to modernize seaports has increased costs for shippers, carriers, and ultimately, consumers, and threatens our status as the world's strongest trading partner.

Funding Requirements for Surface Transportation

U.S. Department of Transportation (DOT) data show that a minimum $50 billion per year federal investment in highway improvements is necessary to simply maintain the current physical conditions and system performance of the nations highway and bridge network. To actually produce improvements, DOT reports that a $65 billion per year federal investment is needed. On the transit side, DOT estimates that $17 billion in capital investment is needed annually just to maintain and improve current public transportation services.

To meet these current challenges, we must invest our limited resources in a better, more efficient manner. We must look at innovative financing and public-private partnerships to supplement the federal user fee system. That is why it is of critical importance to ensure the investment of all HTF revenues into much needed surface transportation programs.

Conclusion

In conclusion, Mr. Chairman, the U.S. Chamber of Commerce and the ATM coalition believe that the federal government should operate with the fiscal controls that BEA reauthorization would bring. The BEA has proven to be an effective means of controlling government spending.

The funding of transportation projects requires long-term, predictable funding. Without a timely reauthorization of the BEA and TEA-21, the federal surface transportation program will experience an uncertainty that will curtail the ability of state DOT's to finance, design, and execute multi-year, multi-million dollar construction projects. The transportation trust funds are inherently fiscally responsible due to their self-financing through revenues generated solely by users of these networks.

The impact of doing nothing will be increased congestion, decreased safety on our roads, and setbacks in our ability to improve air quality. The U.S. Chamber and the members of the ATM coalition look forward to working with Congress and the President to bring predictability and control to the federal budget process that will bring about continued, predictable investment in our nation's transportation system. Investment in our national transportation system will ensure we remain a leader in the global marketplace and should remain a priority during the budget process.

Thank you, and I am happy to answer your questions.